

Registered No. 793051

**PRUDENTIAL HOLBORN LIFE LIMITED**

**Annual Report and Accounts for the year ended 31st December 2006**

## **PRUDENTIAL HOLBORN LIFE LIMITED**

Incorporated and registered in England and Wales Registered no: 793051

Registered office: Laurence Pountney Hill, London, EC4R OHH.

### **Annual report and accounts 2006**

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## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **Directors**

D J Belsham (Chairman)  
R Harris

### **Secretary**

Prudential Group Secretarial Services Limited

### **Auditors**

KPMG Audit PLC  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London EC4Y 8BB

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

#### Principal activity

The principal activity of the Company is the writing of long-term insurance business in the United Kingdom. This activity will continue in 2007.

#### Business review

The company primarily accepts reinsurance from the Prudential Assurance Company Limited in respect of unit linked bonds. Although the Company does not write new direct business it has in-force policies in respect of business written in the past. All of the company's products are unit-linked products. The profits from the company's business accrue solely to shareholders.

There have been no significant changes to the company's business during the year.

#### Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group. The operations of UKIO are structured into three business units: Retail Retirement; Wholesale and Mature Life and Pensions. The operations of the Company fall into the Mature, Life and Pensions unit. UKIO has committed to continuing to safeguard the embedded value through the Mature Life and Pensions unit. It has an aggressive target to reduce per policy unit processing costs by internal cost cutting, further off-shoring and possible outsourcing.

#### Risks & uncertainties

The Company is a wholly owned subsidiary within the Group, Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the acceptance and management of risk. The Group has a Risk Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The system of internal control is an essential and integral part of the risk management process.

As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks including an assessment of the impact and likelihood of key risks and effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year and all businesses and functions within the Group are required to confirm annually that they have undertaken risk management. Actual performance is regularly monitored against the business plans. Detailed procedures are laid down in financial and actuarial procedure manuals. The insurance operations of the Group, such as the Company, also prepare a financial condition report.

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Financial risk management, Market risk, Credit Risk and Liquidity risk in note 7 and in the financial statements of the parent company, Prudential Assurance Company Limited.

#### Performance and measurement

The results of the Company for the year as set out on pages 7 to 8 show a profit on ordinary activities before tax of £17,678,000 (2005: £5,067,000).

The shareholders' funds of the Company total £48,661,000 (2005:£35,749,000).

#### Corporate responsibility

The Company is a wholly owned subsidiary within the Group, Prudential plc, and as such forms a part of the overall approach to corporate responsibility (CR) for the Group. For the Group, CR is not an optional extra. It is fundamental to how the Group and its businesses and functions operate and is a philosophy that is now embedded therein. It is recognised that stakeholders increasingly support those companies that define and exhibit sound values around trust, ethics and environmental responsibility.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)**

It is also believed that performance in key areas of conduct such as corporate governance, environmental management and employment practices can have a significant impact on its financial performance. The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example the Group Code of Business Conduct, the CR policy and Health and Safety Policy. "Treating Customers Fairly" is a key ethic on which the Company conducts its business.

There is also a Corporate Responsibility Committee which is Group-wide and has responsibility for reviewing business conduct and social and environmental policy. A CR unit develops the Group's strategy, provides training across the Group and works closely with the businesses and functions, of which the Company is a part, to provide advice and ensuring that core values are maintained and assisting with the adaptation of Group-wide initiatives to meet local needs.

#### Post balance sheet events

There have been no significant events affecting the Company since the balance sheet date.

#### Accounts

The state of affairs of the Company at 31 December 2006 is shown in the balance sheet on page 10. The profit and loss account appears on pages 7 to 8.

#### Share capital

There were no changes in the Company's share capital during 2006.

#### Dividends

No dividend is proposed for the year (2005: Nil).

#### Payment policy

The Company does not have any trade creditors and therefore codes or standards on payment practice and disclosure of trade creditor days are not applicable.

#### Directors

The present directors of the Company are shown on page 1.

Mrs R Harris was appointed directors of the Company on 30 October 2006. Mr R C Everett, Mr B Hurd resigned as directors on 19 May 2006 and 2 November 2006 respectively. There were no other changes during the year.

#### Directors' interests

Of the directors in office at the end of the year, Mr D J Belsham and Mrs R Harris were directors of the immediate parent company, The Prudential Assurance Company Limited, and their interests are shown in the annual report and accounts of that company.

#### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## PRUDENTIAL HOLBORN LIFE LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

#### Financial Instruments

The Company is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The financial risk factors affecting the Company include market risk, credit risk and liquidity risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in note 7 on pages 19 to 23.

The Company holds and has held no derivatives in the year under review.

#### Auditor

In accordance with Section 386 of the Companies Act 1985, an elective resolution has been passed by the Company dispensing with the need to appoint an auditor annually. Accordingly, KPMG Audit Plc will be deemed to be reappointed auditor of the Company for the current financial year.

#### Qualifying third party indemnities

The Articles of Association of the Company provide for the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides certain protections for directors and senior managers of companies within the Prudential Group against personal financial exposure that they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined under section 309B of the Companies Act 1985) in force for the benefit of the directors of Prudential plc and of certain directors of associated companies (as defined under section 309A of the Companies Act 1985) at the time this directors' report was approved under section 234A of the Companies Act 1985 and during 2006.

On behalf of the board of directors



Prudential Group Secretarial Services Limited  
Secretary

2<sup>a</sup>

March 2007

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



D J Belsham  
Chairman

29 March 2007

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL HOLBORN LIFE LIMITED**

We have audited the financial statements of Prudential Holborn Life Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, Reconciliation of Movement in Shareholders' fund and the related notes.

These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of Directors and Auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of Audit Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985; and

• the information given in the Director's Report is consistent with the financial statements.

*KPMG Audit Plc*  
KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London EC4Y 8BB

29 March 2007

**PRUDENTIAL HOLBORN LIFE LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006**

<b>Technical Account - Long Term Business</b>	<b>Note</b>	<b>2006</b>	<b>2005</b>
		<b>£000</b>	<b>£000</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	896	661,289
Outwards reinsurance premiums	2	526	1,124
		<u>1,422</u>	<u>662,413</u>
Investment income	3	87,501	105,312
Unrealised gains on investments	3	67,410	70,316
Other Technical Income		3,759	-
		<u>160,092</u>	<u>838,041</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid - gross amount		(51,093)	(211,157)
- reinsurers' share		16,258	16,750
		<u>(34,835)</u>	<u>(194,407)</u>
Change in the provision for claims – gross amount	10	968	228
		<u>(33,867)</u>	<u>(194,179)</u>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
- gross amount		11,089	(3,634)
- reinsurers' share		(3,768)	(1,081)
	10	<u>7,321</u>	<u>(4,715)</u>
Change in technical provision for linked liabilities, net of reinsurance	10	(60,885)	(604,293)
		<u>(53,564)</u>	<u>(609,008)</u>
<b>Other charges</b>			
Net operating expenses			
- Administrative expenses		(1,740)	(4,448)
- Change in deferred acquisition costs		(3,202)	-
Investment expenses and charges	3	(20,711)	(14,377)
Tax attributable to long term business	4	(34,116)	(12,657)
		<u>(59,769)</u>	<u>(31,482)</u>
<b>Balance on the technical account - long term business</b>		<u>12,892</u>	<u>3,372</u>

All of the amounts above are in respect of continuing operations.  
The notes on pages 11 to 26 form an integral part of these financial statements.

**PRUDENTIAL HOLBORN LIFE LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)**

<b>Non-Technical Account</b>		<b>2006</b>	<b>2005</b>
	<b>Notes</b>	<b>£000</b>	<b>£000</b>
<b>Balance on the long term business technical account</b>		<b>12,892</b>	<b>3,372</b>
Tax credit attributable to the long term business technical account		4,757	1,445
Balance on the long term business technical account before tax		<u>17,649</u>	<u>4,817</u>
Investment income	3	29	250
Profit on ordinary activities before tax		<u>17,678</u>	<u>5,067</u>
Tax charge on profit on ordinary activities	4	(4,766)	(1,520)
<b>Profit for the financial year</b>	<b>10</b>	<b><u>12,912</u></b>	<b><u>3,547</u></b>

The Company has no recognised gains or losses other than those reported in the profit and loss account.

In accordance with the amendment to FRS 3 published in June 1999 no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments.

All of the amounts above are in respect of continuing operations.

The notes on pages 11 to 26 form an integral part of these financial statements.

**PRUDENTIAL HOLBORN LIFE LIMITED**

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	2006	2005
	£000	£000
<b>Profit for the financial year</b>	<b>12,912</b>	<b>3,547</b>
Shareholders' funds at beginning of year as originally reported	36,267	32,720
Effect of FRS 26 on opening balance sheet	(518)	-
Shareholders' funds at beginning of year as restated	<u>35,749</u>	<u>32,720</u>
<b>Shareholders' funds at end of year</b>	<b><u>48,661</u></b>	<b><u>36,267</u></b>

The notes on pages 11 to 26 form an integral part of these financial statements.

**PRUDENTIAL HOLBORN LIFE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2006**

	Notes	2006 £000	2005 £000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	7	100,235	80,873
<b>Assets held to cover linked liabilities</b>	8	1,942,080	1,733,396
<b>Reinsurers' share of technical provisions</b>			
Long term business provision	10	13	3,781
Technical provision for linked liabilities	10	174,208	171,464
		<u>174,221</u>	<u>175,245</u>
<b>Debtors</b>			
Other debtors	9	1,436	1,250
<b>Other assets</b>			
Cash at bank and in hand	16	8,615	823
<b>Prepayments and accrued income</b>			
Accrued interest		198	333
<b>Total assets</b>		<u><u>2,226,785</u></u>	<u><u>1,991,920</u></u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	17	11,000	11,000
Profit and loss account	10,18	37,661	25,267
Total shareholders' funds attributable to equity interests		<u><u>48,661</u></u>	<u><u>36,267</u></u>
<b>Technical provisions</b>			
Long term business provision	10,11	933	12,534
Claims outstanding	10	1,807	2,775
		<u>2,740</u>	<u>15,309</u>
<b>Technical provisions for linked liabilities</b>	10,12	2,106,464	1,891,392
<b>Provisions for other risks and charges</b>			
Provision for deferred taxation	13	30,306	2,983
Other provisions	14	<u>1,279</u>	<u>2,762</u>
		31,585	5,745
<b>Creditors</b>			
Creditors arising out of reinsurance operations		4,544	7,326
Other creditors including taxation and social security	15	32,791	35,881
		<u>37,335</u>	<u>43,207</u>
<b>Total liabilities</b>		<u><u>2,226,785</u></u>	<u><u>1,991,920</u></u>

The accounts on pages 7 to 26 were approved by the Board of directors on 29 March 2007.

D J Belsham  
Chairman



## PRUDENTIAL HOLBORN LIFE LIMITED

### NOTES TO THE ACCOUNTS

#### 1. Accounting policies

##### (a) Change in accounting policies

The Company has implemented the following accounting standards in preparing its results for the year ended 31 December 2006. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

FRS 23 "The effects of changes in foreign exchange rates", FRS 24 "Financial reporting in Hyperinflationary economies", FRS 25 "Financial Instruments: Disclosures and Presentation" and FRS 26 "Financial instruments: Measurement"

These accounting standards are part of a package of standards comprising FRS 23, FRS 24, the disclosure requirements of FRS 25 and FRS 26. The Company adopted these standards on 1 January 2006. The presentation requirements of FRS25 were adopted by the Company from 1 January 2005.

The main impacts of the adoption of these standards are described below:

##### FRS 23 "The effects of changes in foreign exchange rates"

The adoption of this standard has no impact on the balance sheet or profit and loss account of the Company. However, certain changes have been made on the disclosure relating to foreign exchange differences as a result of adopting this standard.

##### FRS 24 "Financial reporting in hyperinflationary economies"

The adoption of this standard has no impact on the results of the Company.

##### FRS 25 "Financial instruments: disclosures and presentation"

FRS 25 is based on the text of IAS 32 "Financial instruments: disclosures and presentation" as at 31 March 2004, incorporating the revised version of IAS 32 issued by the IASB in December 2003 and includes amendments made by IFRS 4 "Insurance contracts".

The disclosures required under FRS 25 are set out in Note 7. The Company has taken advantage of the provisions within FRS 25 that allows the comparatives not to be restated to comply with this standard in the first year of adoption.

##### FRS 26 "Financial instruments: measurement"

FRS 26 is based on the text of IAS39, "Financial instruments: recognition and measurement" as at 31 March 2004, incorporating the revised version of IAS39 issued by the IASB in December 2003 together with the amendments to IAS39 on "Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk" and those made by IFRS 4 "Insurance contracts".

As with FRS 25, the comparative information has not been restated to comply with this standard.

Certain provisions of the Statement of Recommended Practice, "Accounting for Insurance Business", issued in December 2005 (as amended in December 2006) by the Association of British Insurers ABI SORP ("the ABI SORP") relating to application of FRS 26 also became effective for the Company upon its adoption of FRS 26 in 2006. The principal effects of adopting FRS 26 arise in the Company's long-term business contracts and financial assets.

## PRUDENTIAL HOLBORN LIFE LIMITED

### NOTES TO THE ACCOUNTS (continued)

#### 1. Accounting policies (continued)

##### Long-term business

On adoption of FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. Insurance contracts and investment contracts with discretionary participation features are to be accounted for under previously applied UK GAAP, which is as set out in the ABI SORP. Discretionary participation features represent the contractual right to receive additional benefits as a supplement to guaranteed benefits. The Company's insurance contracts and investment contracts with discretionary participation features are primarily protection policies.

For investment contracts without discretionary participation features, FRS 26 and where the contract includes an investment management element, the provisions of ABI SORP apply measurement principles to the assets and liabilities attaching to the contract that may diverge from those applied under the previous UK GAAP. The changes primarily arise in respect of deferred acquisition costs, deferred income reserves and provisions for future expenses commonly called "sterling reserves".

The investment contract without discretionary participation features classification applies primarily to certain unit-linked and similar contracts written by the Company.

Under previous UK GAAP, acquisition costs were deferred with amortisation on a basis commensurate with the anticipated emergence of margins under the contract. Under FRS 26 and the ABI SORP, the costs potentially capable of deferral are limited to incremental costs which are directly attributable to securing investment management contracts. These are recognised as an asset that represents the entity's contractual right to benefit from providing investment management services which is amortised as the entity recognises the related revenue. Deferred acquisition costs are amortised to the long-term business technical account in line with service provision.

Deferred income provisions for front-end fees and similar arrangements are required to be established for these contracts with amortisation over the expected life of the contract in line with service provision.

Sterling reserves are not permitted to be recognised under FRS 26.

A further feature is that these investment contracts without discretionary participation features are closer in nature to a deposit style arrangement between the investors and the Company. Premiums and withdrawals for these contracts are recorded within the balance sheet as a movement on the investors liability and the long-term business technical account reflects fee income, expenses and taxation on the contract. The provisions for investment contracts without discretionary participation features are included in Technical Provisions for Linked Liabilities in the balance sheet. FRS26 impacts the following captions in the Long Term Business Technical Account: gross premiums written, outwards reinsurance premiums, claims paid gross amount, claims paid reinsurers' share, net operating expenses, investment income (inclusion of policy fees for administration and management services) and change in technical provisions for linked liabilities.

##### Financial Investments

The other main impact arising from the adoption of FRS 26 is in relation to recognition and measurement of financial instruments (other than long-term business contracts classified as financial instrument as described above). Upon initial recognition, financial investments are measured at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases: